Manitoba
March 31, 2001

OFFICE OF THE
PROVINCIAL AUDITOR

Operations of the Office

Vision

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Provincial Auditor will contribute to greater public trust and confidence in the institutions of government.

Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

government accountability information;

compliance with legislative authorities; and

the operational performance of government.

Values

IN INTERPERSONAL RELATIONSHIPS

Respect ***Honesty***

Integrity ***Openness***

IN ACHIEVING OUR VISION AND MISSION

Teamwork

Independence

Balanced Perspectives

Professional Excellence

101-07414/

Office of the Provincial Auditor
500 - 330 Portage Avenue
Winnipeg, Manitoba, Canada R3C 3L6

July 2001

The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to submit herewith our Annual Report on the Operations of the Office of the Provincial Auditor for the year ended March 31, 2001 to be distributed to Members of the Legislative Assembly in accordance with the provisions of Section 13 of The Provincial Auditor's Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Provincial Auditor

Table of Contents

Reflections of the Provincial Auditor 1

The First Five Years 7

Accomplishments at a Glance 11

Who We Are

- Our Organizational Structure 16
- Our Staff 17
- Our Role 18
- Our Operating Principles 18
- Our Services 19
- Our Clients 20
- Our Clients' Needs 20
- Our Clients' Perspectives 20
- Our Key Risks 21

The Auditor General Act 24

Highlights of Reports Issued for 2000/2001

- Audit of the Public Accounts 28
- Compliance and Special Audits 29
- Value-for-Money Audits 30
- Business Planning and Performance Measurement 31
- An Examination of School Board Governance in Manitoba 32

Service Practices

- Financial Statement Services 34
- Compliance and Forensic Services 36
- Value-For-Money Services 38
- Governance Services 40
- Information Technology Services and Computer Services 42
- Administrative Services 44

Table of Contents

General Operations

Human Resources 46

Communications Strategy 47

Professional Development 48

Other Training and Professional Development Opportunities 49

Information Technology 50

External Liaisons 51

Financial Accountability

Management's Responsibility for Financial Statements 56

Auditors' Report 57

Financial Statements and Notes 58

Performance Accountability

Our Strategic Planning Process 68

2000/2001 Strategic Plan Actions Completed 70

Summary of the 2002/2004 Strategic Plan 72

Best Practices - Critical Success Factors 74

Performance Measurement 75

Appendices

Appendix A Financial Statement Audits Within the Government Reporting Entity Conducted by the Provincial Auditor's Office

Appendix B Other Financial Statement Audits Conducted by the Provincial Auditor's Office

This Report

This Report describes the functions and operations of the Office of the Provincial Auditor and presents the audited financial statements for the Office for the year ended March 31, 2001. It is not a report on the results of the audits conducted, as this information is tabled in the Legislature separately.

Reflections of the Provincial Auditor

This summer I completed five years as Provincial Auditor. I always remember my start date as it coincides with the week of the Winnipeg Folk Festival; an event that is also an important part of my life. This marks the mid-point of my 10 year appointment. I thought it would be interesting to review some of the learnings from the first five years and to set out some of the challenges facing public administrators and the Office in the next five years. Immediately following my reflections are observations from my staff's perspective.

The Concept of "A Special Duty of Care"

As I reflected about situations the Office has encountered in the past five years, the concept of a special duty of care owed to the citizens of Manitoba by those charged with managing public monies became a key focal point for me. Anyone, charged with managing another person's money, owes that person a duty of care. However, outside the public sector, a person has a choice as to whether to hire someone else to manage their money and as to whom to hire. Citizens do not get a choice about paying taxes to government. As a result of the requirement to pay taxes, I believe citizens are owed a special duty of care as to how their tax dollars are spent. A result of this thinking, for us, is to hold public sector officials to a very high standard of care when assessing the probity with which public monies have been managed.

Fortunately, this standard is met more often than not. While the instances of failure to meet the standard, understandably, receive more attention in the media,

our general experience is that public sector managers are dedicated to providing value for money to the citizens of Manitoba.

"Trust Deficit" and Vision of the Office of the Provincial Auditor

In March 1997, I referred to the concept of a "trust deficit", a term used by many commentators to describe the increasing degree of cynicism in many democratic countries in the relationship between the citizenry and their elected officials. In the belief that legislative auditors can act to mitigate this cynicism, our Office developed a new vision for itself:

> *As a leader in promoting enhanced accountability of Government to the citizens of Manitoba, the Office of the Provincial Auditor will contribute to greater public trust and confidence in the institutions of government.*

At the time, I indicated an intention to work with members of the Legislative Assembly and the citizens of Manitoba to identify opportunities to foster more effective accountability mechanisms and better communication processes.

Amending The Provincial Auditor's Act

In July 2001, the Legislative Assembly, with all parties agreeing, passed several significant amendments to The Provincial Auditor's Act. These changes are further highlighted on pages 24 to 26. Shortly after being appointed Provincial Auditor, I began to think about the need to amend the Act, which had not been significantly amended since 1969. Amendments were required to better reflect the modern practice of legislative auditing and the evolution of the concept of legislative officers.

There were five fundamental principles that I recommended underpin the amended legislation and that have, in fact, been addressed in the new Auditor General's Act. These were:

1. Accountability
2. Independence
3. Effective and Responsible Reporting
4. Access to Information
5. Confidentiality

Improvements to Accounting Disclosures in the Public Accounts

Over the first five years of my term, there have been a number of significant improvements to the accounting policies of government. At this point in time, the Government is within striking distance of fully adopting Generally Accepted Accounting Principles (GAAP). It is my hope that this will be fully accomplished before my term is ended. Particulars of the improvements in accounting disclosure are shown below.

Public Accounts Positive Changes Since March 31, 1996	
1997	• The $2.1 billion pension liability was recorded in the Summary Financial Statements.
	• The Operating Fund, Trust Fund and other Special Funds were combined in a single set of financial statements making them more transparent.
	• The Government Reporting Entity was broadened to include two universities and three Child and Family Services Agencies.
	• Lottery revenue was recorded in accordance with GAAP.
1999	• The severance liabilities of $108 million were recorded.
2000	• The Summary Financial Statements and the Financial Statements of the Operating Fund were released in a single volume with the Summary Financial Statements shown as the primary financial reporting document of the Government.
	• The Government adopted capital asset and amortization based accounting policies in compliance with GAAP, except for land and infrastructure.*
	• The Government changed its accounting policies to include all health care facilities in the Government Reporting Entity.*
	• Inventory for resale was recorded in compliance with GAAP.
	• The disclosure of transfers to/from the Fiscal Stabilization Fund and Debt Retirement Fund were changed from being shown as revenue or expenditures in the Financial Statements of the Operating Fund to transfers after determining the excess of revenue over expenditure for Balanced Budget legislation.

*This change represents the implementation of a commitment entered into by the Government in 1998.

Lessons Learned from our Audits and Investigations

1. Governance issues are often at the root of problems identified

A review of the issues raised in the last five years forces one to appreciate the importance of good governance. Good governance is far from being a theoretical exercise without impact in the real world. Lapses in governance practices are a contributing factor to many of the problems we encounter. It is becoming increasingly apparent that good governance practices are an essential component of ensuring that organizations are well run and that they operate within their legislative mandate. I encourage all of those who are part of the governance of their organization to take this precept to heart and engage in a regular and rigorous self evaluation of their contribution to this important aspect of organizational effectiveness.

A key governance lesson learned is that clearly defined roles and responsibilities that are understood by all parties would have gone a long way to reducing the number, and significance, of problems we identified. This role clarity needs to be developed in a corporate culture that fosters trust, transparency and openness.

2. Documentation of Important Decisions

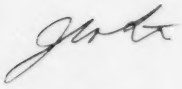
Too often during the last five years, our audit work was hampered by inadequacies in, or absence of, documentation supporting key decisions. It is important to keep in mind that this is not just an audit issue. It is fundamentally a threat to the effective operation of our democratic accountability processes.

In 1998, I wrote:

> "Documentation is not just an exercise in paperwork. It is fundamental to management being able to demonstrate that an effective and equitable process was followed in arriving at a decision. In a few cases... the ability of my staff to conduct an audit and reach firm conclusions was compromised by the lack of appropriate documentation. I am taking this opportunity to remind all public servants of the importance of maintaining clear and transparent

documentation of all significant decisions. This will provide needed assurance to legislators and senior officials that decisions are being made on the basis of appropriate criteria."

The past five years have been thought provoking and rewarding. I am proud of the work we have done as an Office. I know the next five years will move us further in ensuring Manitobans are the benefactors of transparent and accountable government.



Jon W. Singleton, CA•CISA

The First Five Years

MEMORABLE MILESTONES - A STAFF PERSPECTIVE

Jon Singleton is now at the mid-point of his ten year term as the Provincial Auditor of Manitoba. The first five years of his term have gone by incredibly fast. It has never been dull for the staff since his appointment. There have been many memorable milestones:

1996/1997

- A formal Business Planning Process was introduced.
- Significant emphasis has been placed on the importance of continuous learning. Training and development opportunities are provided for all employees.
- We closed our Brandon office in preparation for the establishment of our agency relationships with public accounting firms in order to maximize the efficiency of our operations.
- Client satisfaction was measured for the first time through surveys of Members of the Legislative Assembly and citizens.

1997/1998

- The Office commenced agency relationships with several of the public accounting firms. The use of the public firms as our agents, partnering in providing attest audit services to many of our clients, has proven to be a very successful initiative.
- A Governance Service practice was established in our Office.
- A multi-disciplinary hiring approach expanded the educational background of employees in the Office.
- There has been a significant increase in the use of and availability of information technology.

1998/1999

- We relocated our Office from the Woodsworth Building to the Newport Centre.
- "An Examination of Governance in Manitoba's Crown Organizations" has the honour of being the only report that we have ever had to arrange for a second printing to accommodate the requests for copies.

1999/2000

- A Compliance and Forensic Services practice was established in our Office. Their initial high profile reports have contributed significantly to raising awareness of the work of our Office.
- The Office has become much more active in recruiting and employing Chartered Accountancy students. More students are progressing through the CA program and receiving their designations while working for our Office.

2000/2001

- The retirement of Warren Johnson as the Assistant Provincial Auditor in May 2000 was followed by the hiring of Bonnie Lysyk in June 2000 as the new Assistant Provincial Auditor and Chief Operating Officer.
- We have radically changed the appearance of our reports to the Legislative Assembly, utilizing graphic design services to give our reports more visual impact, and have our own Office logo.
- A website for our Office was established (**www.pao.mb.ca**).
- The Office is increasing the use of specialists and consultants to assist on specific projects.
- An Information Technology Service practice was established in our Office.

Our Office's reputation and visibility in the Government and business community has been significantly elevated over the past five years. Jon has given numerous speeches to the management and audit communities locally and across Canada. This has extended our message about the need for a

special duty of care in the management of public funds to a wider audience.

Through Jon's encouragement, our Office is actively involved on many committees with the Canadian Council of Legislative Auditors, ensuring that we have access to current information and state of the art accounting and auditing practices. Further, many people in the Office serve as volunteers in both professional and not-for-profit organizations.

From his staff's perspective, we are all confident that the next five years will certainly be challenging, exciting and ground breaking!

Accomplishments at a Glance

- At the request of the Provincial Auditor, the Government agreed to a complete redraft of the existing Provincial Auditor's Act. Bill 43, which received Royal Assent on July 6, 2001, furthers the principles of independence and accountability of the Office of the Provincial Auditor. Details on the amendments can be found on pages 24 to 26 of this report.
- Our Office contributed to the Government's decisions to enhance Public Accounts reporting. For 1999/2000 the following changes were adopted by the Government:
  - Volume 1 of the Public Accounts included both the Summary Financial Statements and the Operating Fund Financial Statements;
  - Inventories held for resale were recorded;
  - The recording of tangible capital assets began in transition toward compliance with the standards of PSAB; and
  - All health care facilities were included in the Government Reporting Entity.
- As a result of the Fine Option Program review, the Corrections Division of the Department of Justice has implemented a formal screening process for all contact persons, to enable them to detect offenders with a history of violence or sexual offences, when registering new offenders.
- Our report on the Agassiz School Division was distributed by the Department of Education, Training & Youth to other school divisions as an example of the importance of effective board governance and financial accountability.
- As a consequence of the report of the investigation of the Manitoba Lotteries Corporation, the Corporation addressed the inadequate policies and practices identified in the report, which we hope will help to restore public confidence in the level of accountability practiced at the Corporation. The report

presented an expectation of accountability to be followed at all Crown Corporations.

- The report of the Special Audit of the Lions Club of Winnipeg Housing Centres enabled the Government to take measures to protect the significant investment of public monies and to ensure the continued well-being of the residents and participants of the several Lions Club of Winnipeg Housing Centre facilities.

- Following our report, *An Examination of School Board Governance*, the Provincial Auditor presented a keynote address to School Trustees, and our report was a focal point of a workshop held at the annual Manitoba Association of School Trustee's Development Forum held in Brandon, December 2000.

- In response to our report, *Business Planning and Performance Measurement: An Assessment of Timeliness of Implementation and Effectiveness of the Process in Departments*, the Government issued a position statement indicating it is "....committed to the advancement of performance measurement within the government management processes with a strong focus on the measurement of outcomes and results".

- As acknowledged in the final report of the Shared Food Services Working Group dated September 11, 2000, our report on the implementation by the Urban Shared Services Corporation (USSC) of shared food services provided the Working Group with useful information on critical success factors and lessons learned. Our report on USSC also highlighted the criticality of defining clear roles, responsibilities, and expectations when engaging a private sector partner, in order to ensure public sector values and perspectives are respected.

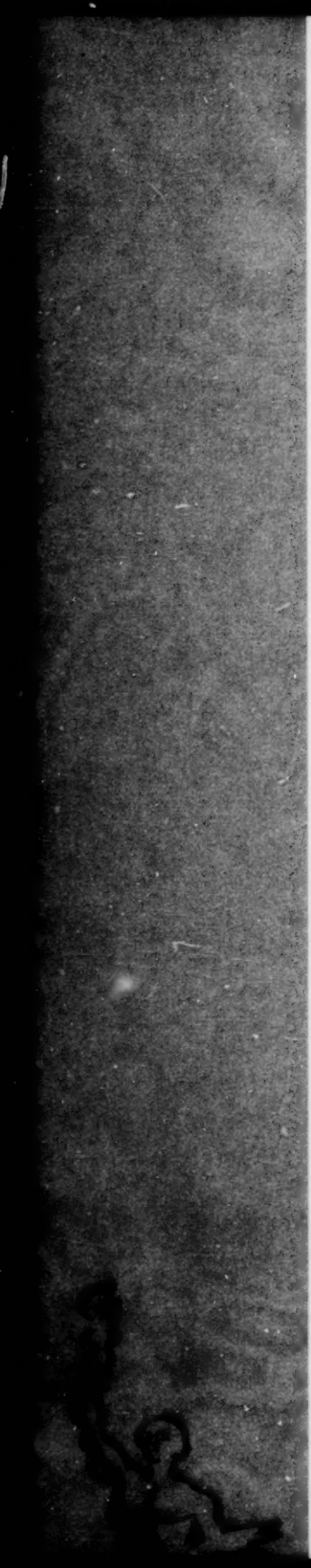
- Our reports on the Vision Capital Fund and the Manitoba Capital Fund highlighted the importance of ensuring public sector accountability needs are fully considered when structuring a public/private sector partnership.

- With respect to our report on the University of Winnipeg, our recommendations, when fully implemented, will contribute to the University's ability to better demonstrate the value it has

achieved for its ongoing investments in information technology.

- At its meeting of July 11, 2000, the Public Accounts Committee agreed to review the functioning of the Public Accounts Committee and to consider the Provincial Auditor's recommendations before submitting to the Standing Committee on Rules a set of proposed changes to the operations of the Public Accounts Committee. Work is underway in this endeavour.

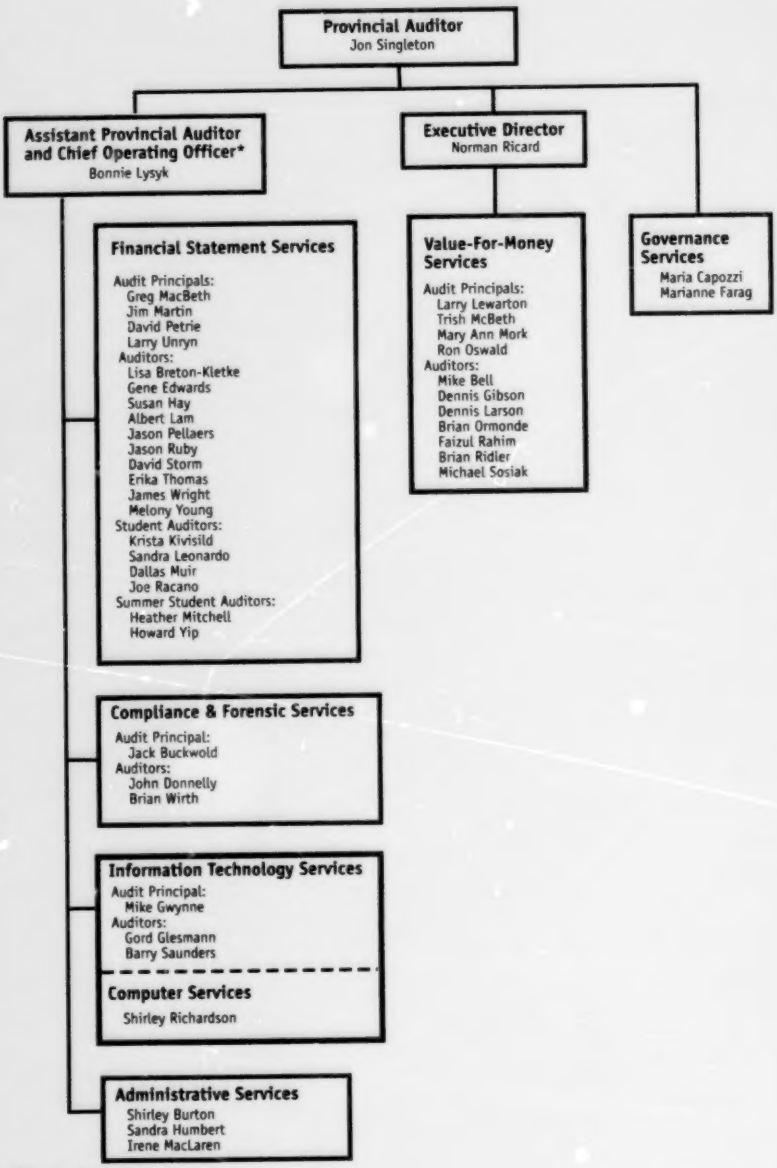
- An Office website (**www.pao.mb.ca**) was established which provides expanded access to our reports and press releases.



Who We Are

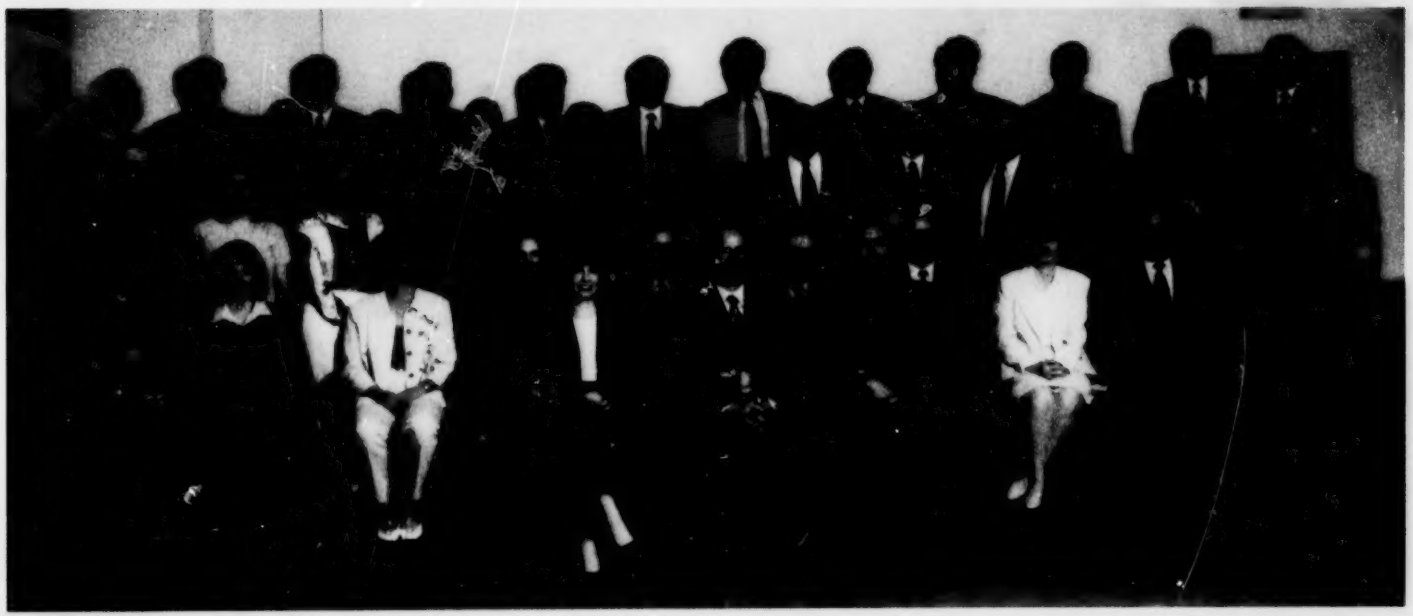
Our Organizational Structure	16
Our Staff	17
Our Role	18
Our Operating Principles	18
Our Services	19
Our Clients	20
Our Clients' Needs	20
Our Clients' Perspectives	20
Our Key Risks	21

Our Organizational Structure



*Effective June 2000

Our Staff



Left to right from Top Row: Lisa Breton-Kletke, John Donnelly, Brian Ridler, James Wright, Jack Buckwold, Larry Unryn, Brian Ormonde, Brian Wirth, Mike Bell, Greg MacBeth, Jason Pellaers, Gene Edwards. Second Row: Krista Kivisild, Barry Saunders, Sandra Leonardo, Joe Racano, Irene MacLaren, Dennis Larson, Jason Ruby, David Storm, Ron Oswald, Jim Martin, Mike Gwynne, Dallas Muir, Howard Yip, Marianne Farag, Sandra Humbert, Maria Capozzi. Third Row: Heather Mitchell, Shirley Richardson, Melony Young, Larry Lewarton, David Petrie, Gord Glesmann, Susan Hay, Dennis Gibson. Front Row: Bonnie Lysyk, Jon Singleton, Norman Ricard. (Not Shown: Erika Thomas, Trish McBeth, Faizul Rahim, Shirley Burton, Albert Lam, Mike Sosiak, Mary Ann Mork)

Our Role

The Office of the Provincial Auditor is an independent office of the Legislative Assembly. The Provincial Auditor plays an important role on behalf of the citizens of Manitoba in the process by which the legislature holds the government of the day accountable for its actions.

In fulfilling that role, we have the responsibility, on behalf of the public, to bring to the attention of the legislature, and to officials of the Government, anything that we consider is "of significance and of a nature that should be brought to the attention of the Assembly".

The Provincial Auditor's Act provides for the Provincial Auditor to serve as an Officer of the Legislative Assembly. The Act gives the Provincial Auditor the responsibility, authority, and independence to audit and publicly report on all government organizations as well as to conduct inspection audits of recipients of public monies.

Our Operating Principles

Independence

- We conduct our work in an objective and unbiased manner.

Balanced Perspective

- We put forth well considered and fair conclusions based on analysis of all opinions and where appropriate, reporting on strengths as well as weaknesses.

Teamwork

- We work together cooperatively and in a coordinated manner to achieve a common goal.

Accountability

- We are accountable for our individual contributions to the products and services provided by the Office.

Value-Added Work

- We provide the Legislative Assembly with value-added reports.

Professional Conduct

- We adhere to the Office values in carrying out our work.

Professional Excellence

- We maintain sound audit methodology and meet the professional standards and competency requirements of our Office.

Financial Stewardship

- We use taxpayers' money effectively and efficiently.

Our Services

Under the authority of The Provincial Auditor's Act, the organizations that are subject to audit include government departments, Crown organizations, government enterprises and recipients of public monies. The type of audits and reviews we undertake are as follows:

Attest Audits - attesting to the adequacy, fairness and appropriateness of reports prepared by management (e.g. financial statements).

Compliance with Authority Audits - assessing and commenting on the extent of compliance with government legislation, including regulations and other central government policies.

Value-for-Money Audits - assessing and commenting on the efficiency, economy and effectiveness with which operational units of the Government use their resources to accomplish intended outcomes.

Governance Reviews - assessing and commenting on public sector reforms, as well as the board governance of various public sector and government funded entities.

Investigations - forensic examinations of financial or operational information.

Special Audits - are requested by the Minister of Finance or the Lieutenant Governor in Council. The nature of this work will vary and includes

investigations, reviews, compliance audits, value-for-money audits, governance reviews or a combination thereof.

Performance Reporting - assessing and commenting on business planning and performance measurement within Government Reporting Entities.

Our Clients

Our clients are the Members of the Legislative Assembly (MLAs), and through them, the citizens of Manitoba.

Those who benefit from our services include Deputy Ministers and Departmental Managers; and representatives of Crown Corporations and Agencies.

Our Clients' Needs

Our clients expect:

- Non-partisan advice and assurance;
- Accurate and timely reporting of audit/review findings;
- Effective and broad-based communication of audit/review findings;
- Reports which provide practical and fair recommendations; and
- Audits and reviews that focus on significant public sector issues.

Our Clients' Perspectives

As part of our performance measurement strategy, the Office conducts a client survey of the MLAs every three years. This allows us to measure our accomplishments from the perspective of our primary clients. This survey was last conducted in 1999, at which time we found that 85% of MLAs read our reports and 90% of them are satisfied overall with the work of our Office.

Our Key Risks

Risk Management is the process of making and carrying out decisions that will minimize the adverse effects of risks upon the goals and objectives of an entity.

It is important for our Office to maintain sound risk management practices to ensure we fulfil our responsibilities. To manage risk, we must identify, assess, and reduce possible adverse consequences the Office could experience from any events or consequences. We have established controls that reduce the likelihood that our risks will have an adverse impact on our ability to carry out our responsibilities.

The following are our key risks and how we are poised to mitigate those risks:

Loss of Independence

- We consider a loss or a perceived loss of our independence to be a risk. We believe that we can address this risk by ensuring that we operate in accordance with our Act without fear of reprisal. The Act provides us with our examination parameters. As an Office we carefully guard our independence.

Loss of Credibility

- Stakeholders trust and value our assurance and advice. We are cognizant that we must gain and keep that trust and ensure that our work and our reports are valued. We strive to do this by ensuring the quality and accuracy of our work and communications.

Lack of Relevance of Work

- In order for our work to be beneficial to our stakeholders, we ensure that our reports meet and exceed their requirements and that as an Office, we maintain an awareness of the issues important to the citizens of Manitoba.

Lack of Resources and Competencies

- The quality of our assurance and advice is dependent on the knowledge, skills and ability of our employees. We offer training and professional development opportunities to ensure that they have the competencies to perform their

responsibilities in an effective and efficient manner. As necessary, we supplement our in-house skills with contractors that bring specialist knowledge required for certain assignments.

The Auditor General Act

The Auditor General Act (Bill 43)

The Provincial Auditor's Act has remained virtually unchanged since it was passed in 1969. Meanwhile however, legislative auditing has evolved considerably over the past 30 years.

Our Office was of the view that the time had come to undertake a review and redraft of the legislation governing the work of the Provincial Auditor. Our work to review the legislation included: developing a set of objectives to guide the review process; consulting audit legislation in other jurisdictions; and identifying provisions in The Act that needed clarification. Based on this work we developed a series of proposed changes to The Act and requested the Government, through the Minister of Finance, to consider these changes. Our proposed changes generally met with a favourable response and through a collaborative working approach, officials from the Department of Finance worked with our staff to develop the amendments.

The amendments are intended to achieve the following objectives:

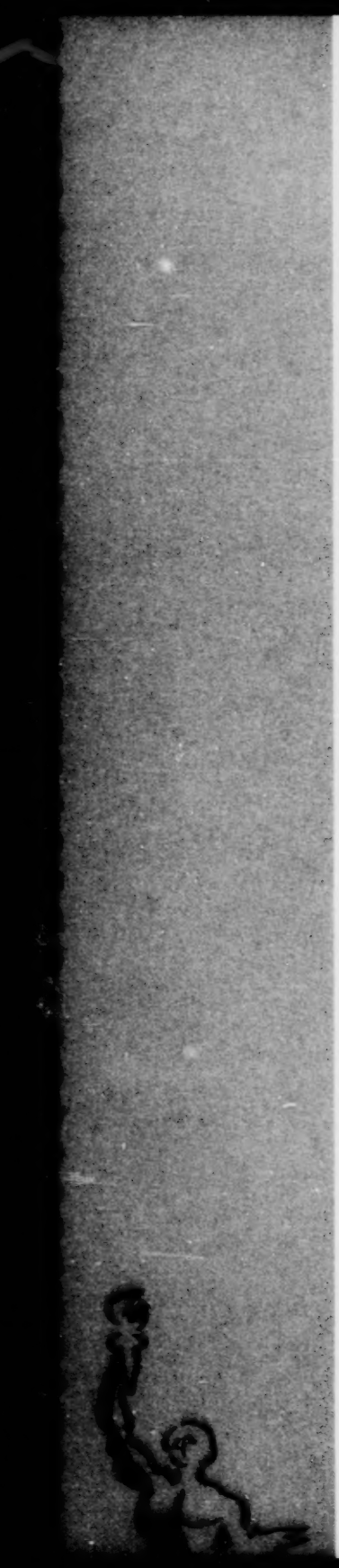
- Strengthening accountability and independence of the Office of the Provincial Auditor;
- Clarifying the Mandate of the Provincial Auditor;
- Strengthening the Provincial Auditor's access to information;
- Ensuring confidentiality of the Provincial Auditor's work.

A comparison between existing legislation and Bill 43 which received Royal Assent on July 6, 2001 is presented in the accompanying table. It will come into effect upon proclamation.

Highlights from Bill 43

Subject	Existing Legislation	Bill 43 Amendments
Appointment of the Provincial Auditor	• The Provincial Auditor is appointed by the Lieutenant Governor in Council (L.G. in C.).	• The Legislative Assembly would recommend to the Lieutenant Governor in Council (L.G. in C.) the appointment of the Provincial Auditor.
Speaker to Table Audit Reports	• The Provincial Auditor's reports are submitted to the Minister of Finance and are forwarded to the L.G. in C. who lays them before the Assembly.	• All reports from the Provincial Auditor will be submitted to the Speaker of the Legislative Assembly for distribution to all members.
Referral of Audit Reports to Public Accounts Committee	• No provision regarding the referral of reports to the Public Accounts Committee.	• The Provincial Auditor's reports that are tabled in the Legislative Assembly shall be referred to the Standing Committee on Public Accounts.
Request for Special Audits	• Only the L.G. in C. or the Minister of Finance can request special audits.	• The L.G. in C., the Minister of Finance or the Public Accounts Committee of the Legislature may request the Provincial Auditor to undertake a special audit.
Audit of Provincial Auditor's Office	• Executive Council (Cabinet) appoints the auditor who examines and audits the Provincial Auditor's Office.	• The Legislative Assembly Management Commission shall annually appoint an auditor to examine, audit and report on the Provincial Auditor's Office.
Ineligibility to Hold Public Office	• No provision in the existing Act.	• The Provincial Auditor and deputy Provincial Auditor may not be elected as members of the Legislative Assembly, nor hold any other public office or engage in any partisan political activity.
Annual Report on Operations of the Office	• No existing provision. However, the Provincial Auditor's Office has, as a matter of practice, submitted to the Assembly an annual operations report.	• Before August 1st in each year, the Provincial Auditor must submit to the Speaker of the Legislature an annual report on the operations of the Office.
Mandate of Provincial Auditor	• The wording of existing provisions is ambiguous.	• The Provincial Auditor's duties are clarified to include reporting on compliance, economy and efficiency with which public resources are being utilized. • As well, the legislation would enable the Auditor to report on the quality of accountability information submitted to the Assembly.
Auditing Recipients of Public Money	• The existing definition of recipient of public money is limited to those who receive grants or an advance or those who borrow or receive a guarantee from the Crown.	• The definition of recipient of public money is expanded to include those who receive tax credits or the transfer of property from government.
Authority of Provincial Auditor in Relation to External Auditors	• No provision in the existing Act.	• Where crown corporations or government agencies use external auditors for financial statement audits, the Provincial Auditor is empowered to: review the scope of an external financial statement audit, to require changes to be made to the scope or to require additional examinations.
Joint Audits	• No provision in the existing Act.	• The Provincial Auditor would be authorized to undertake joint audits with a legislative auditor from another level of government in relation to any provincial funds that are spent under a joint initiative with any jurisdiction.

Subject	Existing Legislation	Bill 43 Amendments
Access to Information	• The provisions seem to limit the Provincial Auditor to only being able to obtain information from a government agency. The Provincial Auditor has the power to examine any person under oath, however, it is not clear if this examination extends to the ability to request that certain records be supplied to the Auditor.	• The legislation clarifies the Provincial Auditor's right to access information from any person, organization or other body that the Provincial Auditor believes on reasonable grounds may have the relevant information.
Penalty for Recipients Obstructing Auditors	• No provision in the existing Act.	• A recipient of public money who obstructs or provides false or misleading information to the Office of the Provincial Auditor is liable on summary conviction to a fine of not more than $10,000.
Audit Working Papers Confidential	• No provision in the existing Act.	• Audit working papers shall not be laid before the Legislative Assembly or any of its committees.
Secrecy Except in Certain Circumstances	• No provision in the existing Act.	• Information obtained during the course of an audit shall remain confidential subject to: - the Provincial Auditor's right to report on any matter; - a legal proceeding; or - a requirement to release information in connection with the proper conduct of this Act.



Highlights of Reports Issued for 2000/2001

Audit of the Public Accounts	28
Compliance and Special Audits	29
Value-For-Money Audits	30
Business Planning and Performance Measurement	31
An Examination of School Board Governance in Manitoba	32

Audit of the Public Accounts

January 2001

This report reflects a number of positive changes in the public reporting of the financial results for the Government of the Province of Manitoba:

- The Summary Financial Statements and the Financial Statements of the Operating Fund were released in a single volume. This reduces the potential confusion caused by the existence of two sets of financial statements. The Summary Financial Statements were shown as the primary financial reporting document of the Government. This presentation addresses concerns expressed by our Office over the past several years.
- The Government adopted capital asset and amortization based accounting policies in compliance with GAAP for the public sector except for land and infrastructure.
- The Government changed its accounting policies to include all health care facilities in the Summary Financial Statements for the Government Reporting Entity.
- Inventory for resale was recorded in compliance with GAAP for the public sector.
- The transfers to/from the Fiscal Stabilization Fund and Debt Retirement Fund were not disclosed as revenue or expenditures in the Financial Statements of the Operating Fund but as transfers after determining the net revenue.

In addition, the Government made the following commitments:

- An Annual Report will be prepared covering the entire Government Reporting Entity in 2000/01.
- The Financial Statements of the Operating Fund will be clearly presented in the Annual Report as reporting on the stewardship of the Operating Fund.
- The Annual Report will include financial indicators as recommended by the Canadian Institute of Chartered Accountants.
- A summary budget for the Government Reporting Entity will be prepared for the fiscal year 2001/02.

- Initial steps will be made in funding its pension liabilities. Funds will be set aside equal to the pension contributions for all civil servants and teachers hired on or after April 1, 2001. They have also committed to setting aside additional funds from time to time toward the pension liability with the first contribution in 2001.

Finally, we made the following recommendations to improve Public Accounts:

- That the Government should change its accounting policies to record changes in accounting policies retroactively and restate prior year balances to be in compliance with GAAP for the public sector.
- That the Government should record land and infrastructure as tangible capital assets as soon as practical.
- That the Government should not release a fourth quarter report on the results of the Operating Fund. This report is not audited and may draw attention away from the audited financial statements in the Annual Report which could potentially differ significantly from the fourth quarter financial statements.

Compliance and Special Audits

March 2001

Compliance and Forensic Services issued its first annual report on Compliance and Special Audits. The audits presented in the report were as follows:

- A review of the Fine Option Program administered by the Corrections Division of the Department of Justice.
- A review of financial and governance issues at the Agassiz School Division.
- A review of allegations concerning management practices at Manitoba Crop Insurance Corporation and the processing of crop insurance claims.
- An investigation into allegations from current and former employees of the Manitoba Lotteries Corporation (MLC) regarding inappropriate spending at MLC. This report was originally issued in May 2000.

- A Special Audit, requested by the Minister of Finance, of the Lions Club of Winnipeg Housing Centres (LHC) to determine the well being of LHC as a whole, and to examine the appropriateness of financial transactions over a three year period. This report was originally issued in January 2001.
- A report of non-compliance with legislation by the Teachers' Retirement Allowances Fund.
- A review of departmental revenue systems.

Value-For-Money Audits

June 2000

This report included the results of one value-for-money special audit and two reviews.

Our review of the implementation of shared food services by nine Winnipeg based health care facilities identified 18 lessons learned. The report highlighted the need to base decisions on more rigorous analytical processes. Also highlighted was the need to ensure facilities were well prepared before beginning implementation.

Our audit on the Investment in Information Technology at the University of Winnipeg included 12 recommendations. The audit highlighted user needs that were not being met, inefficiencies due to the need for greater standardization of the technology infrastructure components across the University, and the need to act on security concerns.

Our special audit of the due diligence practices of the Manitoba Capital Fund and Vision Capital Fund concluded that nothing significant came to our attention that would suggest that the funds did not exercise sufficient and appropriate due diligence in evaluating investment proposals.

Business Planning and Performance Measurement

July 2000

A review of the business planning and performance measurement process among Manitoba provincial departments was conducted through a survey of all Deputy Ministers and Assistant Deputy Ministers responsible for business planning and performance measurement and departmental co-ordinators of business planning and performance measurement. Findings and conclusions are contained in a report entitled, *Business Planning and Performance Measurement: An Assessment of Timeliness of Implementation and Effectiveness of the Process in Departments*. The report presents the results of the survey by comparing them to the set of effectiveness criteria that formed the basis of the review. The report identified 16 recommendations.

The recommendations addressed the areas of strategic direction and leadership involvement; business planning and budgeting; delegation of authority; client input; skills and expertise; coordination of plans and indicators; monitoring, data collection and reporting; outcome indicators; and public accountability reporting. A key recommendation was the need for Cabinet to establish and periodically review a Government-wide Corporate Framework within which departments can develop business plans and performance measures that contribute to the implementation of the Corporate Framework.

December 2000

Following the July 2000 report, a study was undertaken to compare the business planning and performance measurement process in the Manitoba Government with trends and practices in other North American jurisdictions. Essentially, this study benchmarks what other jurisdictions are doing in this field and the implementation process that they are following. Study findings are contained in a report entitled, *A Study of Trends and Leading Practices in Business Planning and Performance Measurement*.

An Examination of School Board Governance in Manitoba

October 2000

This report, part of a planned series of governance reviews of Manitoba's public sector, examined the effectiveness of Manitoba's 54 public school boards against a model of governance reflecting best practices and leading perspectives in board governance research. Based on a survey of both school trustees and superintendents conducted in the spring of 2000, the report raises a number of questions based on the anomalies reported between current school board practices and the model of governance developed by our Office.

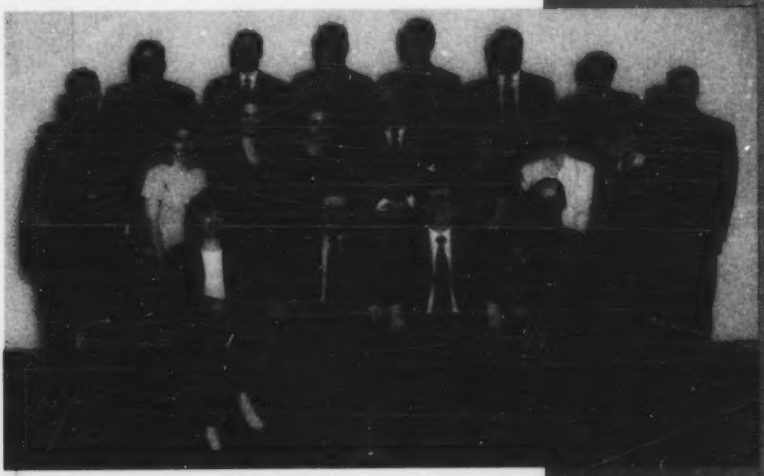
Our findings indicate that overall, school trustees are highly committed to their school division/district and that they care about their contribution to their communities. However, school trustees self-assessed a significant performance gap in the functioning of school boards; that is, they assessed their performance to fall substantially short of desired performance on most school board responsibilities. There was also a clear indication from school trustees that improvement can be made in the alignment that exists between the vision and priorities of school boards and those of government.

As our Office believes that effective governance can contribute a great deal to organizational effectiveness and stronger accountability processes, the purpose of this report is to stimulate a vibrant dialogue among trustees, their administrations, and all educational stakeholders on enhancing school board effectiveness in Manitoba.

Service Practices

Financial Statement Services	34
Compliance and Forensic Services	36
Value-For-Money Services	38
Governance Services	40
Information Technology Services and Computer Services	42
Administrative Services	44

Financial Statement Services



Left to right from Top Row: Jason Ruby, James Wright, Jason Pellaers, [illegible] Dallas Muir, Gene Edwards, Joe Racano. Second Row: Sandra Leonard[illegible] Kivisild, Jim Martin, Lisa Breton-Kletke, Susan Hay, Heather Mitchell. [illegible] David Petrie, Larry Unryn, Greg MacBeth (Not Shown: Erika Thomas, Al[illegible]

The Financial Statement Services practice strives to provide effective and efficient attest services to Government Reporting Entity clients. This includes:

- providing opinions on year end financial statements, special reports and public sector compensation disclosures;
- issuing client management letters to provide operational recommendations;
- conducting overviews of various government entities which includes public accounting firm file reviews for Public Accounts reliance purposes;
- completing special reports on financial information; and
- reviewing compliance with legislation to the extent required for the issuance of financial opinions.

The recent trend of improvements to the Public Accounts of the Province of Manitoba continued again this year. Accounting policies that conformed with public sector generally accepted accounting principles were put in place covering tangible capital assets and amortization. The Summary Financial Statements were

GOALS

Assess whether accountability information provided by the Government to the Legislative Assembly and the public is fair and reliable.

Promote adoption of Canadian Institute of Chartered Accountants (CICA) and Public Sector Accounting Board (PSAB) standards across all audit entities.

Identify/monitor emerging issues of public sector significance.

Strengthen the role and functions of the Public Accounts Committee in relation to this office.

PRIORITIES FOR 2001/2002

Provide attest audit services for 102 public sector entities.

Issue requests for proposal for selected attest audit partnering arrangements.

Complete scheduled special project work.

Conduct scheduled revenue and overview audits as planned.

Provide responsive service for special request assignments.

Expand the use of information technology in the performance of attest assignments.

expanded to include the health care facilities as part of the Government Reporting Entity. The timeliness of reporting of the Public Accounts was also improved. The Summary Financial Statements were combined with the Financial Statements of the Operating Fund and released as one volume, two months earlier than the previous year. Improvements were also made to the financial statements of many of the other organizations in the Government Reporting Entity.

The Office is currently filling a Quality Assurance and Project Coordinator position which will provide coordination and consultative input on issues that arise from our audit activities.

The Office has now achieved a reasonable balance of attest audit services between those done directly using our own staff, and those done in partnership with public accounting firms.

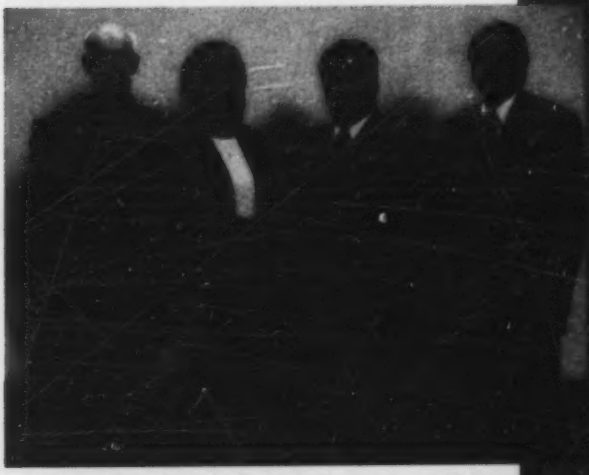
Our Accomplishments - 2000/2001

- Provided 102 attest audit services, partnership audits and overviews on a timely basis. (See Appendix A for Financial Statement Audits Within the Government Reporting Entity Conducted by the Provincial Auditor's Office, and Appendix B for Other Financial Statement Audits Conducted by the Provincial Auditor's Office.)
- Issued audit opinions on the Public Accounts in accordance with the statutory deadline and issued the Audit of the Public Accounts Report to the Legislative Assembly in January 2001.
- Provided an attest opinion on the Labour Market Development Agreement (LMDA) between the Government of Canada and the Government of Manitoba for the year ended March 31, 2000.
- The role of the Financial Statement Services practice expanded to include work on special projects that have linkage to financial statement preparation in Municipalities and School Divisions.
- In December 2000 the Financial Statement Service practice hosted an Open House for senior representatives of public accounting firms conducting government entity audits. The Public Accounts audit was discussed with the importance of our Office's reliance on public

accounting firms' work being highlighted.

- Responded to several requests for assistance on financial issues within various government departments.
- Increased the issuance of management letters for attest audits.
- Provided input to a number of PSAB and International Federation of Accountants Accounting and Auditing research papers.

Compliance and Forensic Services



Left to right: John Donnelly, Bonnie Lysyk, Jack Buckwold, Brian

The work of Compliance and Forensic Services is expected to expand in the future as a result of increasing demand for compliance services. Compliance with authority audits involve assessing and commenting on the extent of compliance with government legislation, including regulations and other central government policies. As well, services will expand to include security reviews and fraud detection activities.

GOAL

Assess directly, and to provide advice to the Legislative Assembly on significant compliance and forensic matters.

PRIORITIES FOR 2001/2002

Conduct scheduled compliance audits as planned.

Provide responsive service for special request assignments.

Develop a compliance audit universe.

Expand the amount of compliance work performed by the Division.

Expand the use of information technology in the performance of compliance and forensic assignments.

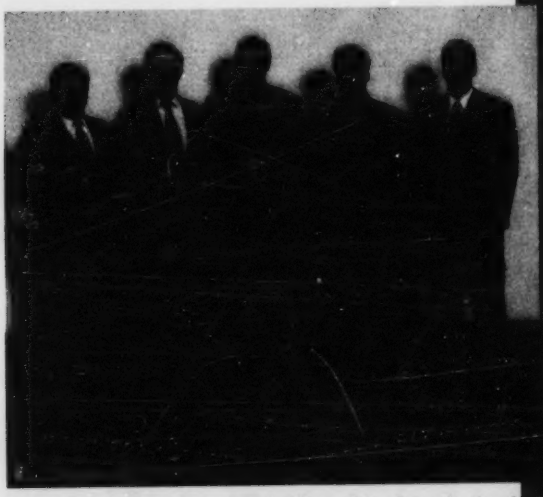
Complete the development of a Compliance Audit Manual.

Increase resources for the performance of Compliance with Authority audits.

Our Accomplishments – 2000/2001

- The first annual report on Compliance and Special Audits was issued to the Legislative Assembly in March 2001. The report includes chapters on a review of the Fine Option Program of the Department of Justice, a review of the financial and governance issues at the Agassiz School Division, a review of the Manitoba Crop Insurance Corporation, a review of departmental revenue systems and the two reports mentioned below.
- Completed a Special Audit, requested by the Minister of Finance, of the Lions Club of Winnipeg Housing Centres (LHC) to determine the well being of LHC as a whole and to examine the appropriateness of financial transactions over a three-year period. Findings and recommendations were released in a report to the Minister of Finance which was tabled in the Legislature in January 2001.
- Completed a review into allegations of inappropriate spending practices at the Manitoba Lotteries Corporation. Findings and recommendations were released in a report to the Minister charged with the administration of The Manitoba Lotteries Corporation Act which was tabled in the Legislature in May 2000.
- Brian Wirth has obtained his Certified Fraud Examiners (CFE) Designation, a first for the Office.
- Increased use of information technology in the performance of analytical work.
- Created a data base of potential compliance with authority legislation audits.
- Commenced development of a Compliance Audit Manual.

Value-For-Money Services



Left to right from Top Row: Dennis Gibson, Brian Ormonde, Dennis Larson, Michael Bell, Brian Ridler. Front Row: Norman Ricard, Ro Oswald, Larry Lewarton. (Not Shown: Trish McBeth, Faizul Rahim, Mike Sosiak, Mary Ann Mork)

In an effort to ensure that the work of Value-For-Money Services is viewed as value-added by the Legislative Assembly and the general public, we strive to:

- Select organizations or programs to examine which manage considerable public resources or which have a significant impact on their stakeholders and the public in general;
- Design our examinations in such a way that we focus on the key result areas of the organization or program, and further, within these key result areas, on those aspects at greatest risk of not being managed with due regard for efficiency, effectiveness and economy.

We believe that to be value-added, our services must be responsive to the concerns of members of the Legislative Assembly, as well as organization and program administrators. Focussing on risks and key result areas, and engaging these parties in the audit process, will help ensure our findings and recommendations contribute to improving government operations in critical areas.

GOAL

Assess directly and to provide advice on Government performance.

We are also continuously examining our processes to ensure we are operating as efficiently, effectively and economically as possible.

Our Accomplishments - 2000/2001

- A report to the Legislature was issued in July 2000.
- We have substantially completed audit work on the following three major audits:
  - We examined whether the Keewatin Community College was obtaining reasonable value from its investment in information technology. To help determine whether user needs were being reasonably met, we surveyed all staff to understand their level of satisfaction with information technology and services, and to identify areas of concern to staff.
  - We conducted a detailed audit of the Student Financial Assistance Program. The key result areas that we focused on were: assessing student eligibility, calculating award entitlements, collection of outstanding loans, designating educational institutions and reporting on performance.
  - We conducted an audit of the social housing program. The key result areas that we focused on were: managing vacancies and wait lists, assessing applicant eligibility, maintaining properties, calculating rental fees and minimizing arrears.

Our report on these audits will be issued in the Fall of 2001.

PRIORITIES FOR 2001/2002

Conduct results-oriented value-for-money audits on government programs, functions or activities.

Conduct our audits within a more compressed timeframe.

Improve our audit processes to help maximize our efficiency and effectiveness.

Strengthen our Quality Assurance review process.

Governance Services

Left to right: Marianne Farag, Jon Singleton, Maria Capozzi

Governance Services provides assessments and advice on issues related to:

- the board governance of various public sector and government-funded entities;
- the use of business planning and performance measurement within Government Reporting Entities; and
- public sector reform.

Enhancing the effectiveness of management practices in these areas contributes to improved organizational effectiveness and stronger accountability processes of public sector organizations. In this way, the work of Governance Services directly supports the Office's vision of being a leader in building greater public trust and confidence in the accountability of Government to the citizens of Manitoba.

GOALS

Promote effective board governance and enhanced accountability in the public sector.

Support the use of business planning, performance measurement and performance reporting in the public sector.

Our Accomplishments - 2000/2001

- Issued a report to the Legislative Assembly entitled, *An Examination of School Board Governance in Manitoba*. This governance review was based on a survey of all Manitoba school trustees and superintendents, and was intended to foster a dialogue on enhancing public school board governance practices. The Provincial Auditor presented a keynote address on this report at the Manitoba Association of School Trustees' Annual Forum.

- Completed a review of the board governance practices of the Lions Club of Winnipeg Housing Centres (LHC), in conjunction with the Special Audit conducted by Compliance and Forensic Services.
- Completed a review of the board governance practices of the Agassiz School Division, in conjunction with the review conducted by Compliance and Forensic Services.
- Completed a review of the business planning and performance measurement process used by provincial departments. Findings and recommendations for improvement were released in a report to the Legislative Assembly entitled, *Business Planning and Performance Measurement: An Assessment of Timeliness of Implementation and Effectiveness of the Process in Departments.*
- Completed an inter-jurisdictional comparison of trends and best practices in business planning and performance measurement. Findings were reported in *A Study of Trends and Leading Practices in Business Planning and Performance Measurement.*
- Undertook a major review of The Provincial Auditor's Act and participated, in partnership with Government officials, in the development of amendments to the legislation.
- Assisted in the development of a survey instrument to assess information technology usage and satisfaction, in conjunction with an audit conducted by Value-For-Money Services.

PRIORITIES FOR 2001/2002

Continue governance research activities by completing a survey of Manitoba's Regional Health Authorities.

Act as an internal resource on governance issues as they arise in other audits.

Report on the work commenced in 2000/2001 to assess the policy development capacity within government departments.

Examine performance reporting among Manitoba's Crown Corporations.

Assess the quality of departmental business/strategic plans.

Information Technology Services & Computer Services

Left to right: Bonnie Lysyk, Mike Gwynne, Shirley Richardson, Barry Saunders, Gord Glesmann

Information Technology Services was newly formed in January 2001.

The Information Technology Services practice conducts audits of information technology. These audits include assessing controls over information technology, the economy and efficiency with which information technology resources are managed, and the effectiveness of information technology initiatives.

Computer Services continues to ensure the information technology infrastructure effectively supports the operations of the Office and ensures the availability of current hardware and software to meet audit work requirements.

Information Technology Services and Computer Services support the other Service practices with the development of CAATs, retrieval of information from government systems, the review of SAP controls on behalf of the Public Accounts audit, and through support of Office hardware and software needs.

GOALS

Assess and provide advice to the Legislative Assembly on the management of information technology.

PRIORITIES FOR 2001/2002

Conduct scheduled information technology audits as planned.

Develop an information technology universe.

Develop a training plan for expanded use of information technology.

Our Accomplishments -2000/2001

- A Computer Services plan was developed which ensured that Office technology needs were being met.
- A Computer Security Study was completed which provided the Office with recommendations for implementation of a number of security improvements.
- Participated in discussions with other Independent Offices of the Legislative Assembly on various information technology security issues.
- Ensured that software upgrades were installed as needed and provided hardware and software support services.
- Provided CAAT support for audit teams.

Administrative Services

Left to right from Top Row: Irene MacLaren, Shirley Burton, Sandra Humbert. Front Row: Bonnie Lysyk, Jon Singleton

Administrative Services are the support services for the Office. The staff ensure the accounting and office administration are conducted in an efficient and effective manner. In addition, staff spend time on human resource activities, meetings and planning activities.

In September 2003 the Office will be co-hosting the Canadian Council of Legislative Auditors (CCOLA) national conference in conjunction with the Canadian Council of Public Accounts Committee, co-hosted by the Legislative Assembly Public Accounts Committee.

Our Accomplishments - 2000/2001

- Coordinated the redesign of the reports to the Legislature and are now capable of doing some of our own printing internally.
- An internal control audit was completed.
- Developed monthly financial statement and quarterly operations reports.
- The Library was reorganized and catalogued.
- Reorganized the office filing system.
- Coordinated office billing and time systems.
- Coordinated the preparation of the Annual Operations Report.
- Provided day-to-day office support.

GOAL

Support the Office of the Provincial Auditor and ensure the accounting and office administration is conducted in an effective, efficient, amd economical manner.

PRIORITIES FOR 2001/2002

Develop a disaster recovery/business continuation plan.

Update the office administration manual.

Formalize, document and implement a library management process.

Develop a budget presentation for the Legislative Assembly for 2002 budget submissions.

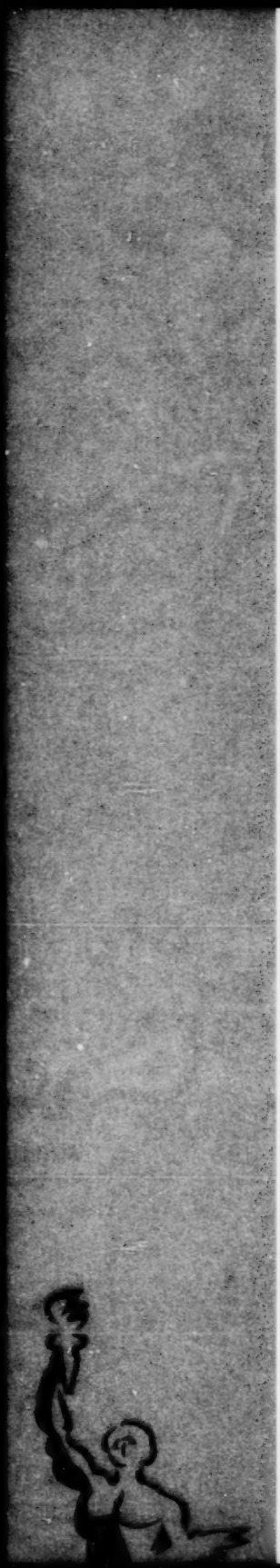
Coordinate the Agency Firm Requests for Proposal for 2002.

Coordinate the Request for Proposal for the audit of the Office financial statements.

Assist in the coordination of a Client Open House, an Agent Open House and an Open House for Internal Auditors of Government Entities.

Establish a staff long service program.

Expand on the internal performance reporting process.



General Operations

Human Resources	46
Communications	47
Professional Development Committee	48
Other Training and Professional Development Opportunities	49
Information Technology	50
External Liaison	51

Human Resources

- Effective January 1, 2001, the Office established an Information Technology Services practice with three employees. This practice will be responsible for performing information technology audits in the provincial government and will provide information technology support to other service practices in our Office.
- With the increasing importance of the use of information technology in the Office, an additional Computer Services support position was created and will be filled in the upcoming year.
- In order to strengthen our quality assurance process in the Office, a new Quality Assurance and Project Coordinator position was created and will be filled in the upcoming year.
- Two new Value-For-Money auditors started with the Office this year.
- The Office participated in the University of Manitoba recruitment initiative through the Manitoba Institute of Chartered Accountants and hired two CA summer students.
- An independent salary survey was conducted this spring.
- The Office conducted several staff meetings this year to discuss new initiatives and audit reports.
- The Office has been provided permanent space for a satellite office in the Norquay building to be used by the Public Accounts audit team.
- There was expanded involvement of employees in the Canadian Council of Legislative Auditors (CCOLA), the Institute of Internal Auditors (IIA) and the Information Systems and Control Audit Association (ISACA).
- An active social committee in the Office planned a number of events that were attended by staff members and their families.

Communications

The Office's communication activities are an essential contributor to the overall achievement of the Office's mission and objectives.

Our communication goals have two primary purposes:

- To heighten awareness of the findings and recommendations made in our audit reports, in order to improve their impact and contribution to public sector effectiveness and accountability.
- To heighten awareness of the role, responsibilities and activities of the Office in order to reinforce legislators' and citizens' trust that our services are a valuable contribution to the accountability of government.

As one aspect of our communications strategy, the Office launched its Website at ***www.pao.mb.ca*** in December 2000. The main purpose of this site is to provide the public with easy access to our reports, as well as information about our services. Press releases that are issued for each and every report to the Legislative Assembly are also made available to the public on the website.

As well, the Provincial Auditor made numerous presentations about our work to a variety of public sector audiences. Some examples from the past year include:

- Participating in a panel discussion on "Accountability in Post Secondary Education" at the University of Manitoba's Campus 2000 National Conference of the Canadian Administrative, Management and Professional University Staff.
- Presenting a keynote address on *An Examination of School Board Governance in Manitoba* at the School Trustee Development Forum held by the Manitoba Association of School Trustees.
- Presenting on "Performance Measurement in Canadian Jurisdictions" to the Performance & Planning Exchange of the federal civil service.
- Presenting on "Governance in Public Sector Boards in Manitoba" to the Institute for International Research.

- Presenting on "Public – Private Partnerships: A Special Duty of Care" to the Service Quality Partners of the Manitoba civil service.
- Presentating on "Legislative Auditing: A Dialogue with the Community" to the Institute of Internal Auditors and the Financial Management Institute.
- Presenting on the "Role of the Provincial Auditor's Office" to the Management Internship, Financial Management Internship, Legislative Internship and Aboriginal Management Internship programs.

Professional Development Committee

Left to right Top Row: John Donnelly, Susan Hay, Maria Capozzi, Jack Buckwold. Front Row: Joe Racano, Shirley Richardson, Ron Oswald. (Not Shown: Shirley Burton, Mary Ann Mork)

The Office continued to provide a quality learning and development environment for all employees with the Professional Development Committee developing a staff training program to meet the following objectives:

- To demonstrate leadership in the development and application of audit and review services;
- To promote the highest standard of professional capacity among staff; and

- To ensure that Office resources are expended with due regard to value-for-money.

The Committee also ensured that training and development opportunities were in keeping with areas of strategic importance to the Office and that sufficient training was provided to meet professional education requirements.

To better represent all employees in the Office, the Committee expanded its membership to include representatives from the Compliance and Forensic Services, Administrative Services, as well as student auditors. Eleven programs, courses and lectures were offered to staff, with topics that included traditional CICA Handbook updates, interviewing skills, computer assisted audit techniques, and auditing techniques for derivative investments.

For the upcoming year, the Committee will continue with its mandate, and plans to offer a broad program that will include an office values workshop, control and risk management evaluation, results based auditing techniques, a report writing workshop, and applying qualitative research methods.

Other Training and Professional Development Opportunities

In addition to offerings by the Professional Development Committee, employees attended external training and development courses, seminars and conferences.

The Office is a Manitoba Institute of Chartered Accountants approved training office supporting articling students in their preparation for Uniform Final Examinations (UFEs). Certain employees are also enrolled in programs that will lead to their achievement of a Certified Fraud Examiner (CFE) or a Certified Information Systems Auditor (CISA) designation.

Information Technology

This fall will see the replacement of hardware that was leased three years ago. An evergreen standard to utilize leading edge systems and tools has begun with an upcoming replacement of notebook/desktop computers. Transitioning to the new environment will be performed in a phased process. Plans include the implementation of Windows2000 Professional on the notebook/desktop computers and a mixed mode environment of Windows NT/2000 Server operating systems on the network. An updated Computer Usage and Security Policy, as well as an updated Electronic Networks Usage Agreement will be introduced as part of the transition plan.

Audit software used by the Office will be upgraded for the audit teams. Training in IDEA 2000 will be part of the Professional Development Program commencing in the fall of 2001. For reasons of compatibility, software upgrades to Microsoft Office Suite 2000 has been deferred until the Government of Manitoba, whose departments represent our principal clients, adopts this standard under their Desktop Management initiative.

The Independent Offices of the Legislative Assembly have formed a committee to address issues such as security, sharing resources and other issues related to our extranet connection to the Government's electronic network for email, web browsing, SAP, and Intranet access. A current initiative is to have our email system connected to the Province for the purpose of exchanging private email. Email sent between the Independent Offices and the Government would stay behind the firewall avoiding the public Internet for a secure and more efficient means of communication to our clients.

External Liaison

The Canadian Council of Legislative Auditors (CCOLA) Study Groups

1. Strategic Issues Group

The Office is represented on the Strategic Issues Group, a committee composed of senior executives of each legislative audit office, including Canada. Offices benefit from collectively considering proposed solutions for urgent and emerging accounting and assurance issues. The committee is involved in the development of enhanced performance measurements. Position papers were prepared during the past year on the Development/Maintenance of Methodology; the Changing Audit Universe; Attracting and Retaining Employees; and Joint Audit Initiatives. Guidance on issues and studies is provided to other CCOLA committees where needed.

2. Human Resource Management

The Office is represented on the CCOLA study group on Human Resource Management. The objectives of this study group are to:

- provide a network to share information on HR practices and initiatives as they apply to legislative auditing;
- promote HR best practices; and
- develop HR-related surveys.

Over the past year the group conducted surveys on recruitment and retention, and on training and development. The results of these surveys highlighted a number of areas for the group to pursue further.

3. Quality Assurance

The Office is represented on the CCOLA Study Group on Quality Assurance. The goal of the study group is to establish a common methodology that can be used by legislative auditing offices to review the quality of their professional work. Over the past year, the study group completed a set of review guides.

4. Financial Statement Symposium

The Provincial Auditor, Assistant Provincial Auditor and Chief Operating Officer, and the Principal in

charge of the audit of Public Accounts participate in the annual CCOLA Financial Statement Symposium. This provides an excellent forum for discussing financial statement accounting and auditing issues unique to the public sector with other legislative audit offices across Canada.

5. Performance Reporting and Auditing

The Office is represented on the CCOLA Performance Reporting and Auditing Study Group, which has the following main objectives:

- To share among the legislative audit community experiences and research in the reporting and auditing of non-financial performance information both nationally and internationally.
- To advance the state of public reporting of non-financial performance information by senior governments and their agencies.
- To advance the practice of providing assurance on non-financial performance information.

Over the past year work of the Study Group has focussed on developing a compendium of audit methodology based on the experiences of the Canadian legislative audit community. As well, the Study Group initiated a project to develop a database on business planning and performance measurement. The database will be accessible by members via the internet and will provide data from senior governments across Canada and selected other countries on: business planning and performance measurement legislation; policies/procedures for the preparation of business plans and performance reports; and trends and future directions in the auditing of non-financial performance information.

6. Information Technology Committee

The Office is represented on the Information Technology Committee which provides input on best practices used in the audit and support of information technology, and provides advice on IT issues, including the use and maintenance of the CCOLA Web site. The Committee meets annually to discuss the use of information technology to improve the performance of the legislative audit offices, including the methods and procedures used to audit information systems.

7. Health Care Study Group

This study group was established by CCOLA to assist Canadian Legislative auditors in considering issues related to a September 11, 2000 First Ministers agreement. The First Ministers agreed to report regularly to Canadians on health status, health outcomes and the performance of public health services. It was also agreed that each Provincial Government and the Federal Government would determine appropriate third party verification of their health performance indicators.

Institute of Internal Auditors

The Office is represented on the board of the Manitoba Chapter.

Certified Information Systems Auditors

The Office is represented on the board of the Manitoba Chapter.

Institute of Chartered Accountants of Manitoba

The Office is represented on two committees of the board.

The Certified General Accountants Association of Manitoba

The Office is represented on a committee of the board.

Financial Accountability

Management's Responsibility for Financial Statements 56

Auditor's Report 57

Financial Statements 58

Management's Responsibility for Financial Statements

The accompanying financial statements of the Office of the Provincial Auditor for the year ended March 31, 2001 are the responsibility of management of the Office. Management has prepared the financial statements to comply with The Provincial Auditor's Act and with generally accepted accounting principles in Canada. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including an organizational structure that effectively segregates duties. These controls provide reasonable assurance that transactions are appropriately authorized, assets are adequately safeguarded and financial information is reliable and accurate.

The financial statements have been audited by the firm of Burke, Cantor & Co., Chartered Accountants. Their report to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the financial statements, appears on page 57.

Jon. W. Singleton, CA•CISA
Provincial Auditor
June 4, 2001

BCCA

Burke, Cantor & Co. Chartered Accountants

Ben T. Burke • Edward Cantor • James J. Smith • Larry R. Gander • Michael Averbach • Ken Shiffman • Associate: Myron Borden

1505-444 St. Mary Avenue, Winnipeg, Manitoba R3C 3T1 Phone: (204) 957-7000 Fax:(204) 949-1191

AUDITORS' REPORT

To the Legislative Assembly of Manitoba

We have audited the Statement of Financial Position of the **OFFICE OF THE PROVINCIAL AUDITOR** as at March 31, 2001 and the Statements of Operations and Net Assets Available and Cash Flows for the year then ended. These financial statements are the responsibility of the Provincial Auditor. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Provincial Auditor as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Burke, Cantor & Co.

June 4, 2001
Winnipeg, Manitoba

Statement of Financial Position
as at March 31, 2001
(000s)

	2001	2000
CURRENT ASSETS		
Accounts receivable	$ 1	$ 1
Short-term funding commitments - Province of Manitoba	283	253
Prepaid expenses	78	43
Work in process - audit fees	163	173
	525	470
Long-term funding commitments - Province of Manitoba	7,030	5,095
Capital assets (Note 3)	218	387
	$ 7,773	$ 5,952
CURRENT LIABILITIES		
Accrued liabilities	$ 16	$ 16
Accrued vacation pay	283	253
Current portion of lease obligations (Note 4)	13	70
	312	339
Provision for employee severance benefits	437	427
Provision for employee pension benefits	6,593	4,666
Capital lease obligations (Note 4)	-	13
Total liabilities	7,342	5,445
Net assets available	431	507
	$ 7,773	$ 5,952

Statement of Operations and Net Assets Available for the Year Ended March 31, 2001 (000s)

	2001	2000
REVENUE		
Province of Manitoba - net funding (Notes 5 and 6)	$ 5,556	$ 3,462
Audit fees	723	582
Total revenue	6,279	4,044
EXPENSES		
Pension and other benefits (Note 6)	2,461	552
Salaries	2,400	2,236
Professional fees	641	479
Amortization of capital assets	206	237
Office rent	160	118
Office administration	140	199
Professional development	106	101
Information technology services	86	51
Printing costs	80	19
Memberships and publications	39	33
Travel costs	32	10
Interest charges on lease obligations	4	10
Total expenses	6,355	4,045
Excess expenses over revenue	(76)	(1)
Loss on disposal of furniture and fixtures (Note 3)	-	(26)
Excess expenses over revenue	$ (76)	$ (27)
Net assets available, beginning of year	$ 507	$ 534
Excess expenses over revenue for the year	(76)	(27)
Net assets available, end of year	$ 431	$ 507

Statement of Cash Flows
for the Year Ended March 31, 2001
(000s)

	2001	2000
OPERATING		
Excess expenses over revenue	$ (76)	$ (27)
Non-cash items:		
Amortization of capital assets	206	237
Loss on disposal of furniture and fixtures	-	26
Net changes in working capital balances:		
Accounts receivable	-	8
Short-term funding commitments - Province of Manitoba	(30)	35
Prepaid expenses	(35)	(23)
Work in process - audit fees	10	(65)
Long-term funding commitments - Province of Manitoba	(1,935)	(56)
Accrued liabilities	-	(1)
Accrued vacation pay	30	(35)
Provision for employee severance and pension benefits	1,937	54
Capital lease obligation	(70)	(69)
Increase in cash from operations	37	84
INVESTMENTS		
Acquisition of capital assets	(37)	(84)
Cash applied to investing activities	(37)	(84)
Net increase in cash	$ -	$ -
Cash, beginning of year	$ -	$ -
Cash, end of year	$ -	$ -

Notes to the Financial Statements for the Year Ended March 31, 2001

1. NATURE OF OPERATIONS AND ECONOMIC DEPENDENCE

The Provincial Auditor is appointed under The Provincial Auditor's Act (Chapter P145) as an officer of the Legislature. The Act provides for the establishment of the Office of the Provincial Auditor and sets out the authority and powers of the Provincial Auditor, identifies the audit services to be provided and establishes reporting responsibilities.

All of the funding for the operations of the Provincial Auditor's Office is approved by the Legislative Assembly Management Commission and included in the Government's estimates as voted through the Appropriation Act by the Legislative Assembly. Accordingly, the Office is economically dependent on the Province of Manitoba.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue from the Province of Manitoba

Funding from the Province of Manitoba is recognized as revenue based on transactions reflected through the Consolidated Fund of the Government. Revenue includes cash payments processed against appropriations of the Legislative Assembly, cash payments for the employer's share of pension benefits paid to retirees from the Office, and the Office's share of provisions recorded for unfunded pension benefits, accrued severance benefits and accrued vacation pay. This funding is then reduced by the amount of audit fees collected by the Office and deposited to revenue accounts of the Consolidated Fund.

b) Revenue from audit fees

Audit fee revenue is recognized on the basis of the percentage of work completed for those government entities which are charged for attest audit services and which account for their financial activities outside of the Consolidated Fund. The amount reflected as work in process is valued at its estimated billable amount.

c) Leases

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks incident to ownership of property are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expense as incurred.

d) Pension costs

Employees of the Office of the Provincial Auditor participate as members of the Civil Service Superannuation Plan, a defined benefit pension plan.

The employer's portion of pension benefits paid to retired employees are processed through central appropriations to the Government and reflected in these financial statements as both revenue and expenditure transactions. Provision is recorded at the year end to reflect the Office's pro-rata share of the most recent actuarial valuation of unfunded pension liabilities estimated for the Civil Service Superannuation Plan. The most recent Actuarial Valuation Report available was completed as at December 31, 1998.

e) Severance benefits

Provision has been made for employee severance entitlements based on one week of salary for each year of service up to a maximum of fifteen weeks. In addition to this severance, employees who retire in accordance with the provisions of The Civil Service Superannuation Act will also be eligible for the following severance pay:

a) employees with 20 or more years of accumulated service, an additional 2 weeks pay;

b) employees with 25 or more years of accumulated service, an additional 2 weeks pay plus the amount in a) above;

c) employees with 30 or more years of accumulated service, an additional 2 weeks pay plus the amounts in a) and b) above;

d) employees with 35 or more years of accumulated service, an additional 2 weeks pay plus the amount in a) and b) and c) above;

The provision includes accumulated benefits for all employees and includes a probability rate provided by the Province of Manitoba.

f) Vacation pay

The value of employee vacation entitlements earned but not taken at the year end is recorded as a liability.

g) Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenditures for the period reported. The more subjective of these are estimating the pension obligation and severance liability. Actual results could differ from those estimates.

Notes to the Financial Statements for the Year Ended March 31, 2001

3. CAPITAL ASSETS AND AMORTIZATION

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful life of capital assets, as follows:

Computer hardware and software	3 years
Computer equipment under capital lease	3 years
Furniture and fixtures	10 years

	000s			
	2001		2000	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer hardware and software	$ 549	$ 500	$ 551	$ 406
Computer equipment under capital lease	191	159	191	95
	740	659	742	501
Furniture and fixtures	175	38	166	20
	$ 915	$ 697	$ 908	$ 521
	$ 218		$ 387	

4. CAPITAL LEASE OBLIGATIONS

The Provincial Auditor's Office has capitalized equipment that is leased as follows:

	(000s)	
	2001	2000
Capital lease - bears interest at 8.25%, with a monthly payment of principal and interest of $1,300, expiring February 23, 2002	$ 13	$ 29
Capital lease - bears interest at 8.25%, with a monthly payment of principal and interest of $5,300, expiring February 23, 2001	-	58
	13	87
Less: Lease interest	-	4
	13	83
Less: Current portion of principal payments	13	70
	$ -	$ 13

Lease payments for the next 5 years are as follows:

Year 2002	$ 13
Year 2003	-
Year 2004	-
Year 2005	-
Year 2006	-
	$ 13

5. REVENUE - PROVINCE OF MANITOBA

In accordance with Section 7(4) of the Provincial Auditor's Act, the costs of carrying on the business of the Office of the Provincial Auditor shall be paid from the Consolidated Fund of the Province of Manitoba. As a result, net funding from the Consolidated Fund which is attributable to the costs of the Office has been reflected as revenue and includes expenditure transactions processed through the Consolidated Fund on behalf of the Office, less any audit fees and other recoveries which have been deposited to the Consolidated Fund.

Net funding from the Consolidated Fund which is reflected as revenue is comprised of the following amounts:

	(000s) 2001	2000
Funding from the Legislative Assembly appropriations:		
Salaries	$ 2,605	$ 2,476
Operating	1,033	1,049
	3,638	3,525
Cash payments for employer's share of employee pension benefits	281	281
Deposits of audit fees and other recoveries	(330)	(357)
Net cash from Consolidated Fund	3,589	3,449
Accounts receivable adjustment	-	(8)
Increase (decrease) in future funding commitments:		
Employee pension benefits	1,927	92
Severance pay	10	(36)
Vacation pay	30	(35)
Revenue from the Province of Manitoba	$ 5,556	$ 3,462

Funding from the Legislative Assembly for the operations of the office was originally approved in the annual estimates of the Government, and subsequently adjusted as follows:

	(000s) 2001	2000
Salaries	$ 3,026	$ 2,796
Other	950	917
Approved estimates, adjusted	$ 3,976	$ 3,713
Payments process, as above	$ 3,638	$ 3,525
Unexpended balance	$ 338	$ 188

Notes to the Financial Statements for the Year Ended March 31, 2001

6. CHANGE IN PENSION OBLIGATION

The most recent actuarial valuation on the pension obligation of the Office of the Provincial Auditor was done as at December 31, 1998. This report became available during the preparation of the current year's financial statements and, consequently, the pension obligation as at March 31, 2001 reflects the estimates contained in this valuation. A cumulative adjustment has been made in the current year representing the retroactive effect of the change in pension obligation of prior years. The result of this adjustment is that the Province of Manitoba - net funding revenue and pension and other benefits expense in the current year has been increased by $1,557,000 representing the retroactive effect of the change in pension obligation of prior years.

7. COMPARATIVE FIGURES

Certain 2000 figures have been reclassified to conform to the 2001 financial statement presentation.

8. DISCLOSURE OF EMPLOYEE COMPENSATION PAYMENTS

In accordance with The Public Sector Compensation Act, disclosure is required of aggregate annual compensation payments of $50,000 or more. For the year ended March 31, 2001 employees of the Office of the Provincial Auditor received compensation of $50,000 or more, including professional fees, severance pay, and the taxable benefits from the leased vehicle for the Provincial Auditor, as follows (in thousands):

Bell, Michael	Auditor	$ 55
Buckwold, Jack	Audit Principal	62
Capozzi, Maria	Senior Analyst	55
Edwards, Gene	Auditor	58
Farag, Marianne	Governance Practice Advisor	75
Gibson, Dennis	Auditor	63
Glesmann, Gord	Auditor	50
Gwynne, Michael	Audit Principal	72
Hay, Susan	Auditor	54
Johnson, Warren	Assistant Provincial Auditor (retired)	63
Larson, Dennis	Auditor	58
Lewarton, Lawrence	Audit Principal	71
Lysyk, Bonnie	Assistant Provincial Auditor and Chief Operating Officer	72
MacBeth, Gregory	Audit Principal	77
Martin, James	Audit Principal	72
McBeth, Patricia	Audit Principal	69
Mork, Mary Ann	Audit Principal	72
Ormonde, Brian	Auditor	63
Oswald, Ron	Audit Principal	58
Petrie, David	Audit Principal	72
Rahim, Faizul	Auditor	63
Ricard, Norman	Executive Director	89
Richardson, Shirley	Systems Coordinator	55
Ruby, Jason	Auditor	55
Singleton, Jon	Provincial Auditor	126
Sosiak, Michael	Auditor	59
Storm, David	Auditor	53
Unryn, Larry	Audit Principal	72
Wirth, Brian	Auditor	66

Performance Accountability

Our Strategic Planning Process	68
2000/2001 Strategic Plan Actions Completed	70
Summary of the 2002/2004 Strategic Plan	72
Best Practices - Critical Success Factors	74
Performance Measurement	75

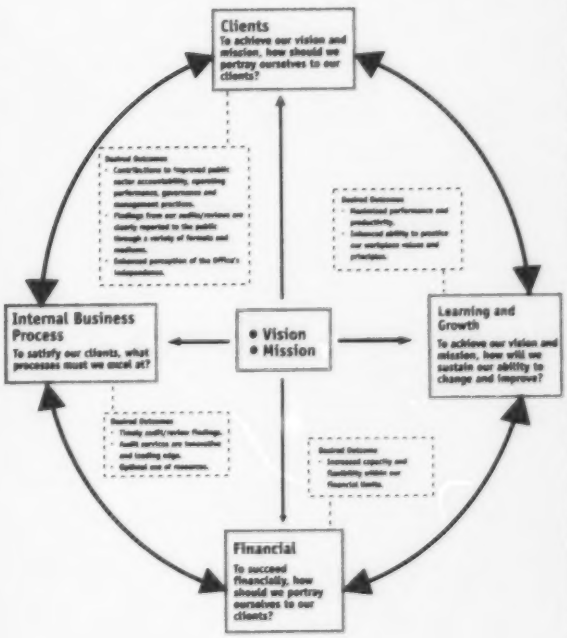
Our Strategic Planning Process

Our strategic plan is based on the Balanced Scorecard model. Through this approach, objectives, outcomes, actions and performance measures are developed that relate to four perspectives: Client; Internal Business; Learning and Growing; and Financial.

The intent behind the model is to ensure that the strategic plan contains complementary and inter-related strategies from each perspective that collectively are designed to ensure that a comprehensive and balanced approach is taken in order to realize an organization's desired outcomes. The desired outcomes developed by our Office are outlined on the following Figure.

Balanced Scorecard Model

The Balanced Scorecard Provides a Framework to Translate a Vision and Mission into Operational Terms


Clients
To achieve our vision and mission, how should we portray ourselves to our clients?
Internal Business Process
To satisfy our clients, what processes must we excel at?
• Vision
• Mission
Learning and Growth
To achieve our vision and mission, how will we sustain our ability to change and improve?
Financial
To succeed financially, how should we portray ourselves to our clients?

Our External Priorities

To achieve our desired outcomes for our clients, the focus of our work will be to support and promote within government reporting entities:

- the use of recognized accounting standards, e.g., Generally Accepted Accounting Principles (GAAP), and standards of the Public Sector Accounting Board (PSAB), and the Canadian Institute of Chartered Accountants (CICA);
- effective compliance with government legislation/regulations, policies and procedures;
- the effective use of information technology;
- the effective use of strategic/business planning and performance measurement;
- effective governance practices; and
- improved assessment and reporting on program effectiveness.

Our Internal Priorities

To build on our ability to achieve our desired outcomes, internal Office operations will focus on:

- enhancing coordination between practices and different functional areas;
- strengthening teamwork capabilities; and
- improving communication and the exchange of ideas within practices/functional areas and across the organization as a whole.

2000/2001 Strategic Plan Actions Completed

In accordance with our 2000/2001 Strategic Plan, the following provides a summary of key actions completed over the past year to meet our desired outcomes.

Client	Contributions to improved public sector accountability, operating performance, governance and management practices	• VFM RTL issued in June 2000 reporting on one special audit and two reviews. Work substantially completed on three further VFM audit reports.
		• Provided 102 attest audit services, partnership audits and overviews on a timely basis.
		• Six audits conducted by Compliance and Forensic Services, issued in March 2001 report, along with a non-compliance with legislation report.
		• A report on the school board governance practices of Manitoba's 54 public school divisions was issued in October 2000.
		• A review of business planning and performance measurement process among government departments issued in July 2000 and a further study comparing Manitoba's process with trends and practices in other North American jurisdictions issued in December 2000.
	Findings from our audits/reviews are clearly reported to the public through a variety of formats/mediums	• Office website launched December 2000.
		• Communications plan completed.
		• Held an Open House for external public Accounting firms.
		• Provincial Auditor provided numerous presentations to a variety of audiences.
	Enhanced perception of the independence of the Office	• Worked with officials of Department of Finance to develop Act amendments, resulting in the tabling of The Auditor General Act (Bill 43) in June 2001.

Internal Business	Innovative and leading edge audit services	• Identified opportunities for our work in emerging pubic sector areas, including Casino auditing, Environmental auditing and the audit of Health Indicators.
		• Created new Quality Assurance and Project Coordinator position to strengthen our quality assurance process.
		• Expanded involvement of staff with external professional associations.
	Optimal use of resources	• Established IT Services practice with three employees.
		• Created a new support position in Computer Services.
		• Monitored employee utilization and audit costs, as well as other performance data.
		• Independent salary survey was conducted.
		• Participated in the University of Manitoba recruitment initiative through the Institute of Chartered Accountants and hired two CA summer students.
Learning and Growing	Maximize performance and productivity	• Eleven progams, courses, lectures were offered to staff with topics that included CICA Handbook updates, interviewing skills, and auditing techniques for derivative investments.
		• Several staff meetings conducted to discuss new initiatives and audit reports.
		• Expanded staff membership on Professional Development Committee.
Financial	Increased capacity and flexibility within our financial limits	• Monthly financial and quarterly operations reports prepared for Executive Committee.
		• Review of internal financial controls completed.
		• Coordinated office billing and time systems.

Summary of 2002/2004 Strategic Plan

The following strategies were developed as part of our three year strategic plan to help us achieve our desired outcomes. Specific action plans are developed for each strategy on an annual basis.

Perspective	Desired Outcome	Strategies
Client	Contributions to improved public sector accountability, operating performance, governance and management practices	• To conduct results-oriented VFM audits on government programs, functions or activities.
		• To complete an IT Audit Universe Plan and conduct IT audits in accordance with it.
		• To provide attest audit services for 102 public sector entities, as well as conduct scheduled revenue and overview audits as planned.
		• To continue the use of attest audit partnership arrangements.
		• To conduct scheduled compliance audits as planned and provide responsive service for special request assignments.
		• To scope and pilot an environmental audit.
		• To conduct a governance review of Regional Hospital Authorities.
		• To assess the policy development capacity within government departments.
		• To follow-up on the status of recommendations made in past reports.
	Findings from our audits/reviews are clearly reported to the public through a variety of formats/mediums	• To develop policies/guidelines to guide ongoing improvements to PAO website, as well as to monitor usage of website.
		• To organize an Open House for clients, external auditors, and internal auditors as required.
	Enhanced perception of the independence of the PAO	• To make organizational changes resulting from the new Auditor General Act.
		• To continue our efforts to strengthen the role and function of the Public Accounts Committee.

Internal Business	Innovative and leading edge audit services	• To develop and implement a Project Management strategy to enhance project management.
		• To further refine our risk assessment/analysis process.
		• To review the audit process for the conduct of the Public Accounts audit.
		• To monitor and update all audit manuals.
		• To conduct a client satisfaction survey.
	Optimal use of resources	• To develop an Audit Universe plan to guide priority project selection and ensure a coordinated approach to audit rotation.
		• To develop a Disaster Recovery/ Business Continuation Plan.
		• To ensure IT infrastructure effectively supports Office operations.
Learning and Growing	Maximize performance and productivity	• To develop an office-wide core competency model and training matrix.
		• To continue to provide professional development opportunities, based on plan submitted by Professional Development Committee.
		• To maintain an environment conducive to CA students successfully graduating with the Office.
		• To improve and enhance the Office's strategic planning process.
Financial	Increased capacity and flexibility within our financial limits	• To improve financial and operations reports.
		• To maintain an optimum level of resouces among service groups.

Best Practices - Critical Success Factors

This is a list of critical factors or practices that we consider to be essential ingredients of a quality legislative office. Essentially the critical factors represent qualitative performance indicators against which we benchmark our performance.

Critical Success Factors

Practices and Activities	Our Performance
Strategic Planning	• Three year Business Plan in place that is updated annually with a major review every three years.
Performance Measurement	• Initial measures developed and evolving.
Audit Procedure Manuals	• Manuals exist for Financial Statement Services and Value-For-Money Services; both are reviewed annually to ensure they are current. • A Manual is currently being developed for Compliance and Forensic Services (a new service).
Quality Control Review	• Peer review scheduled annually on a selected number of audits.
Audit Selection Process	• Risk assessment process being refined.
% of Staff with a Professional Accounting Designation and/or an Advanced Degree (e.g., Masters)	**Number** / **%** • Staff with an Accounting Designation/Audit Certification — 30 / 75 • Staff with a Advanced Degree — 4 / 10 • CA Students — 6 / 15 TOTAL — 40 / 100
Opportunities for Professional Development	• Financial support to CA students and to employees for audit courses completed and passed. • Budget for staff to take various types of internal and external training. • Quarterly presentations organized on relevant topics.
External Memberships	• Canadian Council of Legislative Auditors (CCOLA) • Canadian Comprehensive Auditing Foundation (CCAF) • Canadian Institute of Chartered Accountants (CICA) • Public Sector Accounting and Auditing Board (PSAAB) • Institute of Internal Auditors (IIA) • Institute of Chartered Accountants of Manitoba (ICAM) • Chamber of Commerce • Human Resources Management Association of Manitoba (HRMAM) • Conference Board of Canada • Information Systems Audit and Control Association (ISACA) • Institute of Public Administration of Canada (IPAC) • Financial Management Institute (FMI) • Associates of the University of Manitoba, I.H. Asper School of Business
Use of IT Tools in Office Operations and Audit/Review Projects	• Audit software (IDEA/CASEWARE, Microsoft Office products) • Time tracking on projects is automated • Attendance records automated • E-Mail • Internet Access • MS Project Planner Software

Performance Measurement

Overview

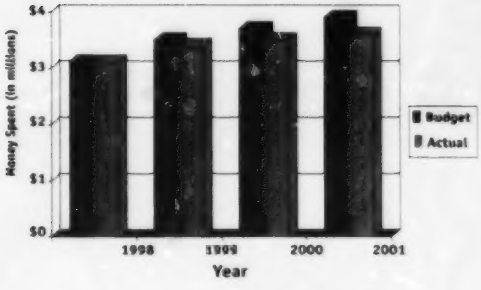
As a key component of our strategic plans, the Office is committed to performance reporting. The following information provides a synopsis of our results in key performance areas.

As the work in the Office continues to evolve, we will be reviewing and assessing future additional or varied performance measures. The Strategic Issues Group of CCOLA have a sub-committee that will be reviewing performance measures used by Provincial audit offices across Canada. We anticipate that this research will provide us with an additional source of reference for additional performance measures.

Salaries and Operating Expenditures

The following chart reflects the budget to actual expenditures of the Office over the last four years. The increase in expenditures mainly reflects inflation and contractual salary adjustments. The level of staff in the Office has remained relatively constant over the same period.

Salaries and Operating Expenditures for the 4 Year Period Ending March 31, 2001 Budget to Actual Results

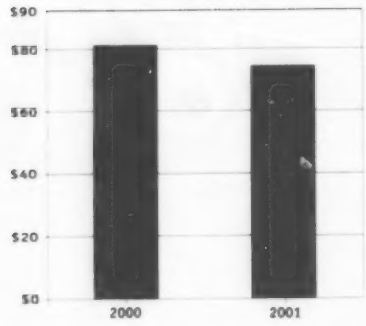


Over the past four years, the Office has never exceeded its budget as authorized by the Legislative Assembly Management Commission.

Audit Costs

The cost per hour is based on the actual salary cost and benefits plus operating costs. The audit hours are the total number of actual audit hours for the year.

Average Cost per Audit Hour



The average cost per audit hour has decreased from the prior year for two reasons. The Office is a training office for people to become Chartered Accountants and we have increased the number of students. We pay 100% of the students course fees on satisfactory completion of each course, and 100% of the Uniform Final Examination (UFE) costs. It takes approximately three years for each student to complete the CA program. Secondly, the overall hours charged to clients has increased by 4,000 hours between 2000 and 2001.

The Office achieved a lower average cost per audit for 2001.

Employee Time

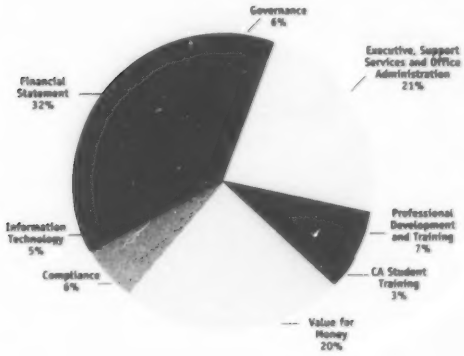
	Actual		Budget
	2000	2001	2001
Employee Time			
Working hours	85%	86%	86%
Vacation leave and statutory holidays	12%	12%	12%
Sick leave	3%	2%	2%
	100%	100%	100%
Working Hour Tasks			
Audits	65%	69%	70%
Executive, Support Services and Administration	24%	21%	20%
Professional Development and Training	7%	7%	7%
CA student training	4%	3%	3%
	100%	100%	100%
Number of full-time positions	41	43	48

Every employee is required to complete bi-weekly timesheets for each task done during the work day. Internally, time is posted to audit, project or administration which includes support services, executive management, general office administration, professional development, etc. The Office uses the information to monitor performance and to determine the actual cost of audits or projects.

It is our goal that 70% of staff time is charged to audits. The past year has taken us closer to achieving this goal.

In terms of our audit work, the following pie chart provides a schematic of the percentage of time spent on working hour tasks.

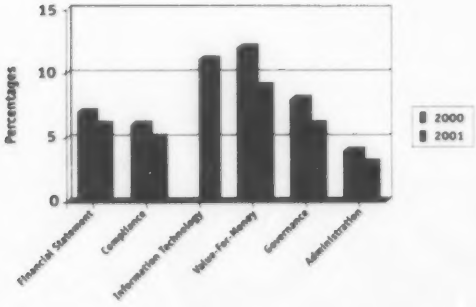
Actual Time Spent on Working Hour Tasks by Employees March 2001



Professional Development and Training

On average the Office target is that 7% of employees time be allocated to professional development and training. On an overall basis this target was achieved. The training for 2000/2001 was allocated based on the needs of the Services' employees.

Percentage of Hours for Professional Development and Training



Information Technology Services was established in 2001.

Client Satisfaction

Our Office defines its clients as those who receive and benefit from its services. Therefore, we identify the citizens of Manitoba, and their representatives, the MLAs, as our primary clients. The government departments and organizations we audit are the beneficiaries of our services. Our client measures are obtained through a survey of MLAs once every three years. We seek information on outcomes, service standards, client satisfaction and suggestions for improvement. The last MLA and Citizen Surveys were conducted in 1999 and are scheduled to be conducted again in 2002. The 1999 results indicated the following:

MLA Survey

- 90% of MLAs are satisfied overall with the work of our Office; and
- 88% indicated that our reports to the Legislative Assembly are an important service.

Citizens Survey

- 38% of Manitobans agreed that our Office builds trust, confidence and accountability of the Manitoba Government to its citizens.

Employee Satisfaction

Our Office believes that it is important to encourage and maintain a cooperative, energetic, team environment that values and respects the individual and promotes continuous learning and growth. Respect, honesty, integrity and openness form our fundamental values. The Office conducts a staff survey every three years. The next survey will be conducted in 2002. The 1999 results indicated that 84% of respondents were satisfied to be working in our Office.

Recommendations Accepted by the Government

Overall, the majority of our recommendations are accepted by the Government and the Government is receptive to implementing them.

Requests for Special Audits/ Consultations

During the past year, we noted a steady increase in requests for our assistance on special audits and, also, on a variety of specific issue consultations. Information is being tracked for future trend analysis reporting.

Speaking Engagements

The number of requests for speaking engagements and the number of presentations by the Provincial Auditor increased over the past year. Information is being tracked for future trend analysis reporting.

Appendices

Appendix A

Financial Statement Audits Within the Government Reporting Entity Conducted by the Provincial Auditor's Office

Summary Financial Statements
Consolidated Fund (Operating Fund and other Special Funds)
Fiscal Stabilization Fund
Debt Retirement Fund
Northern Affairs Fund
Amounts Paid to MLA's

CROWN ORGANIZATIONS

Board of Administration under The Embalmers and Funeral Directors Act
Brandon University (and subsidiaries)*
Centre Culturel Franco-Manitobain*
Cooperative Loans and Loans Guarantee Board
Cooperative Promotion Board
Council on Post Secondary Education
Economic Innovation and Technology Council*
Government Information Systems Management Organization (Man.) Inc.
Horse Racing Commission*
Legal Aid Services Society of Manitoba
Manitoba Agricultural Credit Corporation*
Manitoba Centennial Centre Corporation*
Manitoba Crop Insurance Corporation
Manitoba Foundation
Manitoba Habitat Heritage Corporation*
Manitoba Health Services Insurance Plan
Manitoba Hospital Capital Financing Authority
Manitoba Housing and Renewal Corporation*
Manitoba Trade and Investment Corporation
Manitoba Water Services Board*
Public Schools Finance Board
Special Operating Agencies Financing Authority
University of Manitoba (and subsidiaries)

GOVERNMENT ENTERPRISES

Leaf Rapids Town Properties Ltd.*

SPECIAL OPERATING AGENCIES

Manitoba Text Book Bureau*
Organization and Staff Development*
Public Trustee

* Audit conducted in partnership with a public accounting firm

Appendix B

Other Financial Statement Audits Conducted by the Provincial Auditor's Office

All Charities Campaign
Brandon University Retirement Plan*
Broadmead Investment Corporation
Cherry Lane Investment Corporation
Civil Service Superannuation Fund
Elections Manitoba Returning Offices - 37th General Election
Estates and Trusts under Administration
by the Public Trustee
Labour Market Development Agreement
Manitoba Home Care Employees' Benefits Trust Fund
Public Service Group Insurance Fund
Teachers' Retirement Allowances Fund
University of Manitoba Pension Plans
University of Winnipeg*
University of Winnipeg Pension Plan*

* Audit conducted in partnership with a public accounting firm

PROVINCIAL AUDITORS
Province of Manitoba
Over 100 Years of Service

Provincial Auditor	1876 - 1879
Provincial Auditor	1879 - 1888
Provincial Auditor	1888 - 1916
Comptroller-General	1916 - 1921
Comptroller-General	1921 - 1933
Comptroller-General	1933 - 1936
Comptroller-General	1936 - 1938
Comptroller-General	1938 - 1944
Comptroller-General	1944 - 1966
Comptroller-General	1966 - 1969
Provincial Auditor	1969 - 1972
Provincial Auditor	1972 - 1985
Provincial Auditor	1985 - 1992
Provincial Auditor	1992 - 1996
Provincial Auditor	1996 - Current

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